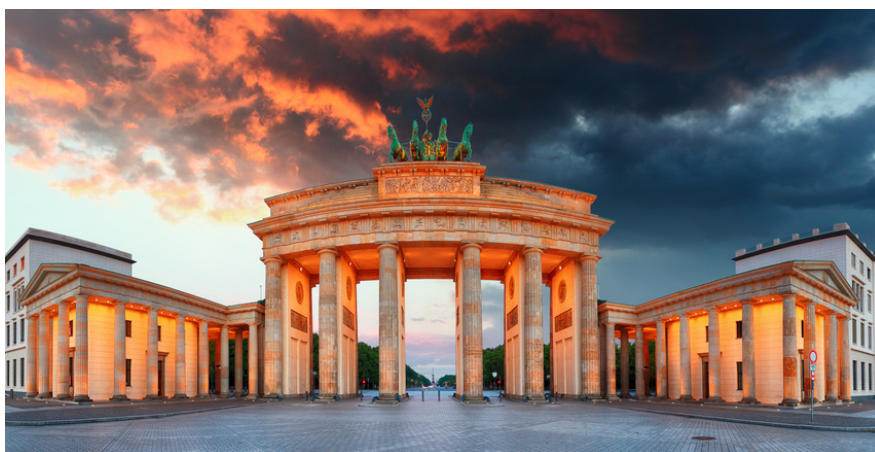


Germany: Stuck in the slow lane

The details of a weak fourth quarter performance of the German economy do very little to cheer us up



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The German economy remains stuck in stagnation. The just-released second estimate of fourth quarter GDP growth revealed that the economy came to a standstill. GDP growth came in at 0.0% quarter-on-quarter, from 0.2% QoQ in 3Q. On the year, the economy had still grown by 0.4%. Private consumption stagnated, investments and exports dropped while construction and government consumption increased. The fact that inventories contributed 0.6 percentage points to quarterly growth, however, does not bode well for the coming quarters.

Let's put this quarterly data into perspective. Despite the latest stagnation, domestic demand has become an important growth driver for the German economy. Private consumption, for example, has been growing for 25 consecutive quarters- a record stretch since German reunification. Construction and investments have also added to growth since 2013.

Moving closer to recent developments, the German economy has been stuck in a de facto stagnation since mid-2018, with average quarterly growth at a meagre 0.1%. There is no single explanation for the slowdown. In fact, it is a combination of too many one-offs, disruption in key sectors and a lack of new structural reforms and investment, which have turned around the economy's biggest challenges within less than two years. Back in 2018, the German economy was suffering from supply side constraints, now it is mainly suffering from a lack of demand. Still, let's not forget that the domestic part of the economy remains solid. The stagnation masks a two-speed economy underneath. Maybe the only common denominator of all the different drivers is the fact that Germany's strongest trump card has become its biggest vulnerability: its openness

and dependence on exports and global trade.

Looking ahead, recent tentative signs of a bottoming out in the manufacturing sector have been overshadowed by the possible adverse economic impact from the coronavirus, be it directly through weaker demand from Asia, or indirectly through supply chain disruptions. At the same time, some technical factors like the strong growth contribution from inventories in the fourth quarter as well as weather-driven strong activity in construction do not bode well for first quarter growth in 2020, as these factors often reverse on a quarterly basis.

All of this means that a rebound in the German economy is not in the cards, yet. In fact, in the absence of either a significant pick-up in global trade or additional fiscal stimulus, it is hard to see the German economy leaving the slow lane any time soon.

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